Annual Report 1998 - 1999

Agriculture
Financial Services
Corporation

Finance It. Protect It. Help It Grow.

1998-99 Board of Directors

Robert Splane, *Chairman, Boyle*

Lynn Dechant, *Fairview*

Gene Dextrase, *High Level*

Aaron Falkenberg, *Sherwood Park*

Robert Hymas, *Strathmore*

Jack Iwabuchi, *Fort Saskatchewan (Retired December 1998)*

Bernard Kotelko, *Vegreville*

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Gerard Oosterhuis, *Bow Island*

Executive Officers

Brian Manning, *President and Managing Director*

Andrew Church, *Vice-President, Field Operations*

Rick McConnell, *Vice-President, Research, Information and Program Development*

Dave Schurman, *Vice-President, Finance and Administration*

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Mission Statement

We help customers in the developing agri-industry fulfill their business goals by offering unique financial services.

Agriculture Financial Services Corporation

Finance It. Protect It. Help It Grow.

Letter of Transmittal

August 15, 1999

The Honourable Ty Lund
Minister of Agriculture, Food and Rural Development
Province of Alberta
208 Legislature Building
Edmonton, Alberta
T5K 2B6

Minister:

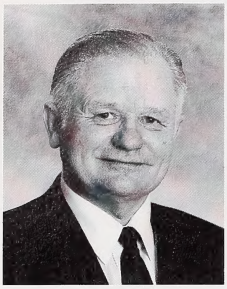
On behalf of the Board of Directors, we are pleased to submit the fourth annual report of the Agriculture Financial Services Corporation.

As required by Section 14 of the Agriculture Financial Services Act (Statutes of Alberta 1993, Chapter A-12.5) the report contains a summary of the transactions and affairs of the Corporation and its revenues and the application of its expenditures for the fiscal year ended March 31, 1999. The report also contains audited financial statements, including a balance sheet, a statement of revenue, expense and surplus and a statement of change in cash flows.

Yours truly,

Robert Splane	***Brian Manning***
Chairman of the Board of Directors	*President and Managing Director*

Minister's Message



In 1998-99, Agriculture Financial Services Corporation (AFSC) once again made an important contribution to the Alberta economy, and continued to deliver the Alberta Advantage to thousands of farm families in our province.

AFSC's mission is to help customers in Alberta's agri-industry fulfill their business goals by offering farmers and agribusinesses a unique set of responsive financial services.

This is important work, especially in light of the size and growth of this industry. In 1998, Alberta's farm cash receipts were $6.3 billion, or 22% of national sales. Economic spin-offs from related industries added billions more in value-added wealth to the provincial economy.

As Albertans, we know that a strong farm economy benefits everyone - through innovation, employment and export activity.

AFSC's mandate is to provide financial products and conduct business in areas where the private sector is either not involved or provides limited services, thus ensuring that farmers have a range of choices in financial and risk management products available to them.

AFSC Commercial provides various financial products to the rapidly expanding agri-industry, and plays a unique role in collaborating with other lenders and investors to put together financing packages to help the industry grow. This also helps diversify the farm economy by encouraging non-traditional crops and value-added products for the global market.

Increasingly, AFSC's fiscal performance and strategic business alliances are recognized and used as a model well beyond Alberta's borders. AFSC staff are sought after for their expertise in insurance, lending and commercial finance. In response to this, in March 1999 the Agriculture Financial Services Act was amended to allow AFSC to explore new business opportunities outside Alberta.

Two examples of such new business activities are AFSC's work in consulting and claims processing for the British Columbia government's Whole Farm Insurance Program, and negotiation with the Chilean government for consulting services to help them establish a crop insurance program similar to Alberta's.

At home, AFSC continues to be willing to go the extra mile to meet farmers' needs, quickly and flexibly.

In November 1998, as the hog price crisis deepened, we streamlined lending processes in order to respond to farmers' need for short-term working capital. AFSC added a 'quick cash injection' provision to the Developing Farmer Loan for affected producers, allowing interest and principal to be deferred for the first two years of the loan.

This is an excellent example of how we can respond to difficult financial circumstances without developing ad hoc programs that can impact Alberta's critical trade relationships. Instead, we modified an existing AFSC business product to solve an industry challenge, with minimal financial risk to the government and to Alberta taxpayers.

There were also significant improvements in 1998-99 to the Farm Income Disaster Program (FIDP), and the program was made a permanent part of Alberta farmers' risk management toolbox. With FIDP here to stay, Alberta farmers truly have the best safety net program in Canada.

Proven risk management tools - along with the improvements AFSC makes every year - ensure farmers are more confident of their ability to withstand the ups and downs that have always been a part of agriculture.

That's really the heart of AFSC's mission: to provide farmers and agribusinesses with the risk management and financial tools they need to succeed in today's competitive global market. By doing so - as AFSC clearly demonstrated in 1998-99 - we continue to significantly contribute to the Alberta Advantage.

Ty Lund

Ty Lund
Minister of Agriculture, Food and Rural Development

Chairman's Message

In a global economy with depressed commodity prices, our clients have found themselves in need of more risk management tools and are making greater use of available insurance and lending products. Thus, 1998-99 was a year of continued solid growth for AFSC, as participation in our core business products grew for the third year in a row, matching our Corporate Business Plan and the unique needs of our customers.

This growth came about through the creation of new and unique business opportunities and through increased participation in AFSC programs, as a result of client needs and the enhancements made to several business products.

AFSC conducted approximately $370 million worth of business during the year, which is one measure of the value of our service to customers. In terms of new business opportunities, these have emerged from external acceptance of AFSC's expertise and products. Other businesses and government jurisdictions are prepared to align with our approach to business, and are looking to do more business with AFSC.

We view these relationships as important alliances for the future. Accordingly, the Government enacted changes to the Agriculture Financial Services Act to allow us to pursue business opportunities outside the province. We also added a sixth directional goal to the AFSC Corporate Business Plan, namely, "To improve cost-efficiency and grow Alberta, AFSC will market its services to other jurisdictions in Canada and internationally."

Several agreements moved us toward that goal in 1998. AFSC signed a contract with the B.C. Government to provide claims processing for its Whole Farm Insurance Program, and we performed cash advance audits for other agricultural organizations.

To improve our core business products, AFSC Board members and senior managers had many meetings with customers to discuss ideas about enhancements to program design and service delivery. One example of enhanced service delivery was the high priority placed on faster processing of FIDP and Crop Insurance claims in 1998. For example, in the insurance business, AFSC staff processed an average of $1.7 million in claims per day between November 4 and December 24, with most claims settled well in advance of the previous year's completion dates.

Improvements to product design resulted in an increase in farmer participation in AFSC products in 1998. Farmers insured 1 million more acres, 30% more farmers took out Beginning Farmer Loans, while Developing Farmer and Crop Loss Option Loans increased from $3.5 million the previous year to $18.3 million in 1998-99.

With growth came an increase in AFSC's cost of administration. A critical component of growth involves improvements to technology which enable us to deliver products and services more efficiently, and in new and better ways than before. In 1998-99, AFSC experienced a significant building phase to make enhancements to computer systems and internal processes, and to ensure that AFSC is Y2K compliant. AFSC's Y2K compliance program has been underway for three years, with insurance and lending program hardware and software being replaced or rewritten, and internal accounting systems integrated. Final testing and training throughout 1999 will ensure all AFSC systems are ready for the Year 2000.

These investments resulted in higher-than-normal administrative delivery costs for the year, but will also put us in a better position to meet future challenges and opportunities. As a government Crown Corporation, we remain committed to ensuring our growth will be measured and attainable, with an eye to sustainability and a low level of financial risk for the taxpayer. We also know that new business ventures, such as offering our services outside the province, can contribute additional revenue to help offset the cost of delivering programs in Alberta. AFSC's Board is committed to keeping costs as low as possible while providing value to our stakeholders.

We think that AFSC is in an exciting business with a great future emerging in the new millennium. All staff can feel good about the role they have played in making this a successful year. AFSC is also fortunate to have a strong Board of Directors, with members who bring solid agricultural experience and innovative thinking to the table. The Board would also like to recognize President Brian Manning for his business insight and leadership skills.

As a final note, the Board would like to pass along our thanks and best wishes to Jack Iwabuchi, who has left the Board after seven years. Jack contributed greatly through his business acumen, especially in the area of the value-added industry. He will be missed, but his entrepreneurial spirit will help guide us for years to come.

Robert Splane
Chairman

Management Commentary

"AFSC is here to help farmers compete. Financial and risk management strategies in agribusiness today play an incredibly important role for Alberta farmers and business owners. AFSC is customer-focused: we're intent on delivering the best package of products and services in the country - and we do that by listening to our customers, giving them choices, and by adding value to the operation."

Brian Manning
President and Managing Director

Management Commentary

1998-99 Business Highlights

1998-99 has been a year of growth for Agriculture Financial Services Corporation (AFSC) at a time when many predicted uncertainty in the farm market. Why? Partly because farmers are better utilizing the wide variety of risk management tools we make available, but also because AFSC has stayed true to its core values of delivering customer-focused business products and services, and doing so in a timely and effective manner.

As we approach the new millennium, companies in agriculture will need to be flexible enough to meet the demands of a rapidly changing and growing farm economy. AFSC does that now - in several parts of the business. The following are three keys areas that demonstrate this:

Responding to Market Realities

During the past year, many producers felt the effects of low market prices for grain and hogs, along with drought conditions in several areas of the province. AFSC responded quickly to ease the cash crunch for customers with the following initiatives:

- A re-designed Developing Farmer Loan included a 'quick injection' provision of up to $50,000 to restore working capital, plus the option to defer principal and interest payments during the first two years of the loan. Low interest rates and payment deferrals were also available through AFSC's Disaster Assistance/Crop Loss Option Loan for producers suffering multiple years of crop losses. A total of $18.3 million was disbursed to 316 producers. In most cases, producers had their money within seven days or less.
- Insurance claims processing in 1998 received a high priority - between November 4 and December 24 alone, AFSC staff processed an average of $1.7 million in claims per day, with most claims settled faster than the previous year.
- Farmers most negatively affected received priority processing under the Farm Income Disaster Program (FIDP). In 1998, a total of 3,143 farmers were paid $55.7 million, for an average of about $17,720 per applicant (for the 1997 tax year).
- During the year, the FIDP concept was used in the development of the national program, Agricultural Income Disaster Assistance (AIDA).

To heighten awareness of AFSC's products and services available to Alberta farmers, AFSC developed a new positioning statement and communications strategy to build greater awareness of AFSC's contribution in the marketplace. The new positioning statement is "Finance It. Protect It. Help It Grow."

Customer Driven Initiatives

As part of our continuous improvement process, AFSC consults with farmers. In the last year, almost 50 focus groups, surveys and public information sessions gave us valuable information for fine-tuning our programs:

- Crop Insurance received further improvements in 1998, with additional discounts, more individualized coverage and better unseeded acreage compensation. AFSC also maintained the low premiums introduced in the previous year.
- Customer requests for more flexibility and a better interest rate for the Beginning Farmer Loan resulted in a lower 7.5% interest rate, plus more flexibility in the program's eligibility criteria. 30% more farmers purchased Beginning Farmer Loans for a total of $83.3 million.
- An evaluation of the Farm Income Disaster Program (FIDP) indicated that customers wanted eligible outstanding accounts payable included in the application, and a deadline that follows seven months after the farm's year end date, rather than a fixed deadline. Both changes were made.
- AFSC managers met with producers over concerns about parts of the pasture insurance program. Producers' input will be evaluated in detail before recommendations are made for the future of the program.
- Customers demand functionality, and today that means efficient, Y2K-compliant technology. AFSC is now in the final testing stages of our re-engineering, and will be ready for the Year 2000.

Providing Extra Value

AFSC staff have a wealth of expertise and hands-on experience in farm finance and risk management. To add value for our customers, we share that expertise:

- AFSC loans officers helped many Alberta farmers with financial consulting services to guide them through challenges facing their farms in 1998. For example, 988 hog producers throughout the province and 525 farmers in the drought-affected Peace River country received help assessing their financial options, restructuring their debt or working out alternate arrangements with creditors.
- AFSC Commercial introduced 'Market Plan Assessments' to provide agrifood and value-added companies with informed, objective assessments of viable agribusiness opportunities.
- Negotiations between AFSC and the government of Chile may result in a consulting agreement to help Chile develop a crop insurance program. Revenue generated from such an agreement could offset the cost of delivering programs in Alberta.

BUSINESS GOAL	PROGRESS
AFSC COMMERCIAL	
1. To help the industry achieve the goal of $20 billion of value-added production by 2005, develop AFSC Commercial as the government link with the private sector by leveraging AFSC funds to $150 million a year by 2001.	• AFSC Commercial continued to help entrepreneurs start and grow value-added businesses by leveraging AFSC funds 4 to 1 with private sector funds resulting in $68.2 million of value added investment for 55 Alberta projects. AFSC investment was $13.5 million and private sector investment was $54.7 million. • A formal marketing program was implemented to increase public awareness of AFSC Commercial financial products and services. The program included direct customer contact, new product promotional material, media support and discussions with potential alliance partners and capital sources.
CROP INSURANCE ***HAIL INSURANCE*** ***FARM INCOME DISASTER PROGRAM (FIDP)***	
2. To complement the existing agriculture safety net package by 2001, research, develop and test concepts including alternative reinsurance initiatives, whole farm production and income insurance, weather-based production insurance, and price insurance programs.	• For the first year ever, private sector reinsurance was implemented for crop insurance, resulting in the private sector assuming almost all of the risk for losses between 115% and 180% of premiums collected - as much as $93 million in potential risk transferred to the private sector. • Acquired and tested weather measuring equipment in preparation for undertaking feasibility studies on weather-based insurance. • Completed actuarial research in phases 1 and 2 (of 4) of a joint project with Agriculture and Agri-Food Canada on whole farm production and income insurance. • Consulted with farmer advisory groups on the feasibility of price insurance, and concluded it was not a priority for AFSC for the immediate future.

an Progress

BUSINESS GOAL	PROGRESS
BEGINNING FARMER LOAN	
3. To help industry achieve the goal of $10 billion of farm cash receipts by 2005, AFSC will offer unique farm financial services to assist 1,000 beginning farmers per year to establish potentially viable farms by 2001.	• This was a very successful year for the Beginning Farmer program; 791 beginning farmers - a 30% increase over the previous year - obtained loans worth $83.3 million. • A major review of the Beginning Farmer program indicated a very positive perception of the program. Farmer input resulted in additional customer-oriented improvements to polices and business processes, plus a lower interest rate more in line with current market rates. • A marketing and awareness program was implemented, including media support, new product information material, and direct customer contact.
AFSC CORPORATE	
4. To improve customer service by 2001, AFSC farm products and services will be delivered through customer service representatives capable of handling any of AFSC's financial services.	• Developed materials to ensure AFSC staff are cross-trained on AFSC's variety of business products, so staff who specialize in one area of the business are knowledgeable about other products offered by AFSC. • A customer survey was undertaken, showing 89.6% of AFSC customers were 'satisfied' or 'very satisfied' with AFSC service and products.
AFSC CORPORATE	
5. As a result of rewriting core business systems by 2002, have information technology systems in place to handle 50% of all financial services electronically.	• Several information systems were implemented to ensure that a platform for electronic commerce is in place in response to customer demand for electronic service delivery. • Key insurance systems were re-written and are on-track for Year 2000 readiness. • Financial and Management Information System (FAMIS) became Y2K compliant, and a number of Y2K review and testing activities were completed on schedule to ensure that AFSC's various systems will continue to provide uninterrupted service. • Completed re-engineering phase 1 of 5 of ENVOY, AFSC's insurance information system. • Key parts of the accounting system (general ledger and accounts payable) were replaced with new applications.

Three-Year Business Pl

AFSC continued to meet the needs of our customers, by pursuing five long-term business goals in 1998-99:

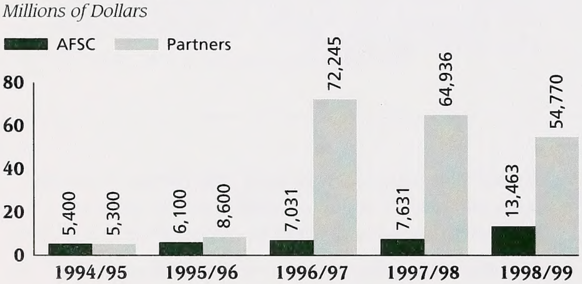
Goal 1:

To help the industry achieve the goal of $20 billion of value-added production by 2005, develop AFSC Commercial as the government link with the private sector by leveraging AFSC funds to $150 million a year by 2001.

AFSC Commercial conducts business in the value-added industry in an innovative and fiscally responsible manner by collaborating with banks, investors and sources of capital. Accomplishments in 1998-99 include:

- over 80% of project costs, or $54.7 million, was leveraged from alliance partners and investors at no financial risk to AFSC
- increasing the total Commercial portfolio by 46% over the previous year, to a total of 192 accounts worth $92.3 million
- contributing to the diversification of the industry by sourcing capital totaling $5.1 million for three processors using non-traditional commodities

Performance Measure
Millions of Dollars



Value-Added Investment: 1994/95–1998/99

Goal 2:

To complement the existing agriculture safety net package by 2001, AFSC will research, develop and test concepts including alternative reinsurance initiatives, whole farm production and income insurance, weather-based production insurance, and price insurance programs.

With a comprehensive set of effective safety net programs in place, the need to respond to ad hoc requests for assistance is greatly reduced. AFSC also looked at alternate ways of conducting business (like private sector reinsurance) to provide a more effective way of managing government's risk exposure.

AFSC continued to explore and develop innovative business products and services in 1998:

- for the first year ever, a private reinsurance arrangement covered multiple losses under crop insurance, with private sector companies assuming almost all the risk for losses which occur between 115% and 180% of premiums collected - this represents $93 million in potential risk transferred to the private sector
- two additional areas came under investigation for the possibility of future private reinsurance: Adjusting Services and Waterfowl and Wildlife Damage Compensation - preliminary statistics were gathered and data sent to a broker for a cost analysis
- completed phases 1 and 2 (of 4) of a joint project by AFSC and Agriculture and Agri-Food Canada to determine the feasibility and long-term cost of providing premium-based insurance for whole farm enterprises
- researched, purchased and placed weather equipment around the province to record data for a possible weather-based insurance program
- as part of AFSC's Farm Input Advisory Groups, farmers around the province reviewed several alternatives for non-subsidized private sector price insurance and determined that this type of insurance delivered through AFSC was not a priority for the immediate future

Goal 3:

To help industry achieve the goal of $10 billion of farm cash receipts by 2005, AFSC will offer unique farm financial services to assist 1,000 beginning farmers per year to establish potentially viable farms by 2001.

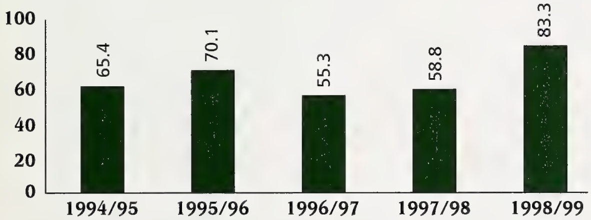
AFSC helps new farmers get a healthy start in agriculture through Beginning Farmer Loans. Effective inter-generational transfer of farm assets is also facilitated through AFSC's complementary Vendor Mortgage Loan. In 1998, AFSC exceeded its target for the year and helped an increased number of beginning farmers in the province:

- 791 beginning farmers - an increase of 30% - secured Beginning Farmer and Vendor Mortgage Loans in 1998-99, for a total of $83.3 million
- the average loan amount per applicant under Beginning Farmer and Vendor Mortgage Loans was about $105,400
- program participation increased, in part, as a result of the lower Beginning Farmer interest rate of 7.5%, fixed for the life of the customer's loan (amortization periods can be up to 20 years)

- other client-requested Beginning Farmer Loan improvements also boosted participation - changes included the opportunity to re-borrow as a loan is paid down or paid out, the inclusion of working capital as a loan purpose, and the removal of the 10-year window for eligibility

Performance Measure

Millions of Dollars



Dollars Advanced Under Beginning Farmer Loans: 1994/95–1998/99

Goal 4:

To improve customer service by 2001, AFSC farm products and services will be delivered through customer service representatives capable of handling any of AFSC's financial services.

AFSC strives to have long-term, satisfied customers at all stages of product delivery. Although training is an ongoing initiative which keeps our staff current, AFSC took several actions in 1998-99 to review and enhance customer service delivery and staff training to ensure more flexible, competent delivery of our products and services:

- developed materials to ensure staff are cross-trained on AFSC's variety of business products, so staff who specialize in one area of the business are knowledgeable about other AFSC products
- eight staff with potential for future executive and management positions completed 'Leaders in Agriculture', a leadership development program designed by AFSC, Alberta Agriculture, Food and Rural Development and the Banff School of Management
- Long Service Awards recognized 59 individuals for their contributions, and the President's Award Program honored two AFSC staff groups for excellence in internal and external customer service

As a component of customer service, regular customer input keeps us sharp, helps us direct improvements in our programs, and tells us about overall customer satisfaction. In 1998, a variety of feedback mechanisms showed we're doing a good job:

- AFSC conducted two Board tours and almost 50 customer focus groups, customer satisfaction surveys and public information sessions on AFSC products and services
- a satisfaction survey for insurance and farm lending products showed 89.6% of AFSC customers were 'very satisfied' or 'satisfied' with staff's ability to perform the promised service dependably and accurately

Goal 5:

As a result of rewriting core business systems by 2002, have information technology systems in place to handle 50% of all financial services electronically.

Like all insurance and lending organizations, AFSC relies on information technology in transacting business. In 1998-99, AFSC continued to make significant improvements to its systems and software:

- AFSC's Year 2000 compliance program has been underway for three years. Insurance and lending program hardware and software is being replaced or rewritten, and internal accounting systems integrated. Testing throughout 1999 will ensure all AFSC systems are ready for the Year 2000
- like many businesses facing extensive computer rewrites for Y2K readiness, 1998-99 was a building phase for AFSC, with higher-than-normal administrative costs for the year
- many enhancements to computer systems and internal processes will result in future efficiencies and improvements in customer service

Business transactions using electronic technology is a growing trend on the farm. AFSC is examining ways to integrate electronic technology into future operations for the benefit of customers:

- in 1998-99, AFSC improved access for customers by implementing a better system for obtaining or inquiring about insurance services - farmers can now access many insurance services through mail, fax and phone, as well as personal visits
- enhancements to the electronic tracking system improved access to claims information, resulting in AFSC responding to customer needs in a more timely fashion
- customer service focus groups held in 1998 provided feedback on increased flexibility in delivering financial services, particularly by using electronic technology - input will be used to develop future strategies and actions

AFSC is focusing on enhancements to allow greater electronic delivery of services, but we know face-to-face service remains important for many customers. The excellent personal service at district offices - on which many customers comment favorably - will continue to be key to our operations throughout Alberta.

Summary of Operations

"For many years, the network of AFSC field offices has delivered front-line service to farmers across Alberta. Every year AFSC finds new ways to improve the quality and efficiency of that service. We will continue to build an excellent track record in this regard."

Andrew Church
Vice-President,
Field Operations

"Like agriculture itself, AFSC's business never stands still. Working closely with our customers, we will continue to develop insurance and lending concepts that enhance the competitiveness of Alberta's agriculture and food industries."

Rick McConnell
Vice-President, Research,
Information and Program Development

Summary of Operations

AFSC Commercial Financing Highlights

COMMERCIAL FINANCING

AFSC Commercial offers a unique portfolio of innovative financing options, financial strategies and market knowledge to Alberta agri-businesses. These include companies in food processing, commercial-scale intensive livestock production, nutraceuticals, processing of other products sourced from agriculture (eg. cosmetics, particle board), manufacturing, and services supporting the industry.

To help meet the capital needs of the rapidly expanding agri-industry, AFSC Commercial collaborates with alliance partners from the private and public sectors to facilitate financing through:

- *Senior Debt Financing*
- *Junior Debt Financing*
- *Syndicated Loans*
- *Capital Sourcing*
- *Market Plan Assessments*
- *Financial Re-structuring*

1998-99 was a year of growth for AFSC Commercial:

- *assisted in capitalization of 55 agri-industry projects worth $68.2 million*
- *$54.7 million, or 80% of project costs, was leveraged from alliance partners and investors at no financial risk to AFSC*
- *total loan portfolios reached 192 accounts for a total of $92.3 million, a significant 46% increase over the previous year*
- *loan portfolios managed for alliance partners reached 40 accounts worth $60.3 million*

AFSC Commercial

To provide capital for Alberta's rapidly expanding agri-industry, AFSC develops alliances with key private and public sector businesses, other lenders and investors to access larger capital pools for our customers.

In 1998, AFSC Commercial helped grow the agri-industry by:

- providing financing ranging from $15 thousand to $23 million to new and expanding agri-industry businesses, such as food processors, farm service companies and processors of other products sourced from agriculture
- encouraging industry diversity by sourcing capital worth $5.1 million for three processors using non-traditional commodities
- lending only $13.5 million directly from AFSC, thus meeting the objective of fiscally responsible government lending (the other 80% of new project capital came from alliance partners and investors outside AFSC)
- obtaining $7.6 million in financing from various capital sources for five Alberta companies, on a fee-for-service basis

AFSC has supported the development of many of Alberta's agri-industry leaders. AFSC Commercial provides financing to the agri-industry in an innovative and cost efficient manner, and has a unique position in the province in that we are not a bank. This means we can look at every option available - from partnering with other lenders and banks, to bringing in a variety of investors - to get the best possible financial solution for Alberta agri-industry companies.

Number of Businesses AFSC Assists with Financing Each Year

Business Type	1994/95	1995/96	1996/97	1997/98	1998/99
Food Processors	12	15	7	14	26
Non-food Processors	6	3	3	1	2
Farm Services	8	9	11	10	15
Other	5	3	5	7	8
Total	31	30	26	32	51

Summary of Op

AFSC Insurance and Income Protection Highlights

INSURANCE

The Canada-Alberta Crop Insurance program is Alberta's major crop protection program.

It covers farmers against production-related risks and is available on many different crops through:

- *All-Risk Crop Insurance*
- *Hail Insurance*
- *Forage Insurance*
- *Waterfowl and Wildlife Damage Compensation*

INCOME PROTECTION

The Farm Income Disaster Program (FIDP) is a whole-farm safety net program that provides assistance to farmers whose annual net margin drops by more than 30%, compared with the average of the previous three years.

1998-99 was a successful year for AFSC Insurance and Income Protection:

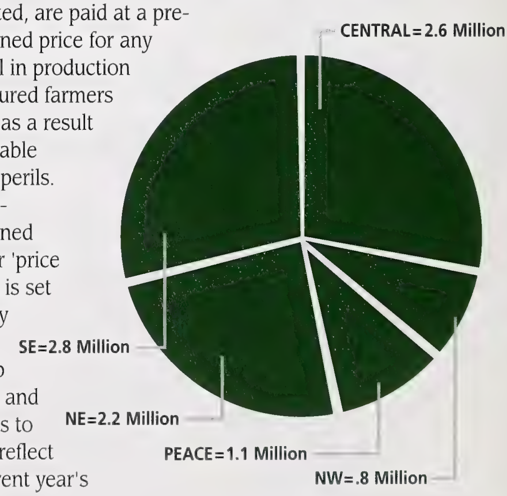
- *more than 17,000 farmers and businesses purchased AFSC insurance products on a voluntary basis*
- *9.5 million acres insured against production losses, an increase of 1 million acres over the previous year*
- *AFSC Crop Insurance and Straight Hail Insurance covered 68% of total eligible seeded acres in the province*
- *producers who purchased Crop Insurance and Straight Hail Insurance in 1998 insured 72% of the seeded acres on their farm*
- *$177.9 million in insurance premiums was collected (Crop, Straight Hail and Forage)*
- *$113.2 million in insurance claims was paid (Crop, Straight Hail and Forage)*
- *3,143 farmers received FIDP claims of $55.7 million, an average of about $17,720 per applicant (paid in 1998 for the 1997 tax year)*

All-Risk Crop Insurance

Attracted by lower premiums and concerned about dry field conditions, Alberta farmers insured more acres in 1998:

- crop insurance purchased on 9.5 million acres in 1998, up 12% - or 1 million acres - from 1997 levels
- under Crop Insurance alone, AFSC policyholders insured 90% of their seeded acreage in 1998, compared to the customary level of 70% to 80% in previous years
- total premiums collected rose to $146.2 million from $139.1 million the previous year
- claims paid (including Hail Endorsement) totaled $87 million, higher than the previous year's $69.6 million, but still well below the long-term average for loss-to-premium ratios
- 62 private sector reinsurance companies worldwide reinsured AFSC against extreme crop insurance losses (between 115% and 180% of premiums collected) which reduced government risk by about $93 million in 1998

All-Risk Crop Insurance covers many different crops, including acreage seeded to grains and oilseeds, hay and pasture crops, honey, grain corn, sugar beets, vegetables and a number of specialty crops. Crop Insurance covers farmers against production-related risks by offering coverage based on a percentage of long-term average yields. Indemnities, when warranted, are paid at a pre-determined price for any shortfall in production that insured farmers sustain as a result of insurable natural perils. The pre-determined price, or 'price option', is set annually before the crop season, and attempts to closely reflect the current year's market price.



Acres Insured by Area of Province
(Based on Total of 9.5 Million Acres)

Forage Insurance

Improvements to Forage Insurance, and an extremely dry winter in 1998, resulted in significant growth for the program:

- participation increased 49%, with 1998 contracts rising to 2,447 from 1,641 the previous year
- acres covered increased almost three-fold to 2.7 million acres, up from the previous year's 1.0 million acres
- for the first time, AFSC paid a pasture claim advance so producers could replace feed or purchase seed - 269 cattle producers received an early advance that totaled just over $3 million
- $9.3 million in Forage premiums was collected
- $14.5 million in Forage claims was paid

Forage Insurance offers a specific production guarantee to producers maintaining hay and pasture acres. In 1998, AFSC managers met with producers over concerns about claims and payments under the pasture component of the program. Producers' input will be evaluated before recommendations are made for the future of the program.

Highlights of Crop Insurance Operations

1998 Crop Year	Contracts	Acres (M.)	Premiums ($M.)	Claims ($M.)
All-Risk Crop	15,470	9.5	$ 105.4	$ 61.7
Hail Endorsement*	11,669	7.0	$ 40.8	$ 25.3
Forage	2,447	2.7	$ 9.3	$ 14.5
Straight Hail	9,177	4.8	$ 22.4	$ 11.7
Total			$ 177.9	$ 113.2

* Hail Endorsement is purchased as part of the All-Risk Crop Insurance policy

Hail Insurance

Sales for Hail Insurance were on target in 1998-99:

- participation was steady, with 1998 contracts at 9,177, down slightly from 9,735 contracts the previous year
- efficient administration and an operating surplus after claims were paid resulted in a $6.2 million rebate paid back to Hail Insurance customers in 1998
- $22.4 million in Hail premiums was collected (not including Hail Endorsement under Crop Insurance)
- $11.7 million in Hail claims was paid

Straight Hail Insurance is available for farmers as affordable one-peril coverage. Straight Hail can be added to All-Risk Crop Insurance coverage, or taken on its own. Farmers insure up to a maximum dollar coverage per acre, with losses paid based on the percentage of damage that occurs. The Hail program is entirely self-sustaining and operates without government funding.

Waterfowl and Wildlife Damage Compensation

With an early harvest in 1998, very few crops were left on the field over winter to become susceptible to waterfowl or wildlife damage. This resulted in a total of 245 claims amounting to $658,362 which was a significant reduction over the previous year's total claim amount of $5.2 million on 1,124 claims.

This no-premium program covers crop losses caused by migratory waterfowl, big game animals and upland game birds. Payment covers damaged crop that is either standing or in swaths.

Farm Income Disaster Program (FIDP)

Approximately 3,143 farmers with a disastrous decline in income turned to FIDP in 1998, and received a total of $55.7 million for the 1997 tax year, an average of about $17,720 per applicant.

- an evaluation of the program showed most claims were paid in geographically-concentrated areas (due to weather-related losses) and/or in a particular sector of the industry (e.g. cattle) indicating that FIDP is appropriately targeted to those who need it most
- as a result of the FIDP evaluation, the Alberta Government extended the three-year pilot and made FIDP a permanent safety net program
- FIDP staff continued to be recognized for their expertise in implementing this ground-breaking safety net program - AFSC was contracted to provide applications claims processing for B.C.'s Whole Farm Insurance Program

The Farm Income Disaster Program compensates farmers for losses in farm income of 'disastrous' proportions. FIDP is designed to be GATT-friendly, and is a whole-farm safety net program with all agricultural commodities eligible.

Summary of Operations

AFSC Farm Lending Highlights

FARM LENDING

AFSC takes a long-term approach to farm lending. The Corporation offers a variety of loan products with competitive interest rates, usually fixed for the life of the loan, with incentives to reduce Beginning Farmer Loan principal or payments, and flexible repayment terms. AFSC staff also offer financial consultation services for farmers needing help when their financial picture changes. AFSC Farm Lending products include:

- *Beginning Farmer Loan*
- *Vendor Mortgage Loan*
- *Developing Farmer Loan*
- *Disaster Assistance/Crop Loss Option Loan*
- *Alberta Farm Development Loan*
- *Specific Guarantees (on loans from other lenders)*

1998-99 was a year of growth for AFSC Farm Lending:

- *over 1,100 loans were made to farm families to help them develop their farm operations*
- *Beginning Farmer Loans helped 791 new farmers with loans totaling $83.3 million, a 30% increase over the previous year*
- *53 Developing Farmer Loans totaled $7.6 million in 1998-99, a three-fold increase over the previous year*
- *a new 'quick cash injection' provision under the Developing Farmer Loan helped 185 farmers, with loans totaling $6.5 million*
- *changes made to the Disaster Assistance/ Crop Loss Option Loan resulted in 78 loans totaling $4.2 million, four times higher than the previous year*

Beginning Farmer and Vendor Mortgage Loans

- total loan amounts increased to 791 loans for $83.3 million, up from $59.8 million the previous year
- client-requested improvements included a lower 7.5% BFL interest rate, the ability to re-borrow as a loan is paid down or paid out, working capital as a loan purpose, and the removal of the 10-year window for eligibility

The Beginning Farmer Loan is one of AFSC's core lending products, providing long-term, fixed-rate loans for new entrants into farming. An AFSC Vendor Mortgage allows the seller of a property/operation (often the buyer's parents) to hold the mortgage for the purchaser.

Developing Farmer and Disaster Assistance/Crop Loss Option Loans

AFSC responded to an industry-wide credit crisis caused by low hog prices and drought in several areas of the province:

- a 'quick cash injection' provision of up to $50,000 to restore working capital was added to Developing Farmer Loans, and the option to defer principal and interest payments in the first two years of both loans was available
- as a result, AFSC put a priority on processing - a total of $18.3 million was disbursed for 316 loans, and most producers had their money within seven days or less

Developing Farmer Loans help primary producers with farm operations in a more advanced stage of development through long-term loans with fixed rates of interest. Disaster Assistance/ Crop Loss Option Loans help producers through multiple years of weather-related losses.

Other Guaranteed Loan Programs

Alberta Farm Development Loans (AFDL) guarantees totaled $61.6 million, down from last year's $86.5 million.

Lending Performance

AFSC continues to maintain a well-managed portfolio with accounts in arrears greater than one year, and dollars of arrears compared to dollars in the portfolio both increasing slightly, but still well within acceptable levels.

Farm Financial Consulting

AFSC loans officers helped more producers than ever before with financial consulting services. In particular, more than 1500 hog producers and farmers in the drought-affected Peace River area obtained AFSC financial consulting services.

Summary of Activities

Summary for Lending

	Authorizations 1998/99		Authorizations 1997/98		Accumulated Authorizations June'72 - March'99		Active and Outstanding March 31, 1999	
	No.	$M.	No.	$M.	No.	$M.	No.	$M.
Farm Direct Loans								
Beginning Farmer	787	82.8	605	58.8	16,756	1,757.4	8,094	586.2
Developing Farmer	238	14.1	17	2.4	433	34.3	298	19.2
Disaster Assistance/Crop Loss Option	78	4.2	20	1.1	98	5.3	92	4.8
Other	0	0.0	0	0.0	6,640	362.9	890	26.4
Subtotal	**1,103**	**$101.1**	**642**	**$62.3**	**23,927**	**$2,159.9**	**9,374**	**$636.6**
Farm Guarantees								
Specific Guaranteed Loans	1	0.1	2	0.1	2,390	105.4	17	1.4
Alberta Farm Development Loans	2,464	61.5	3,721	86.4	163,006	2,099.2	10,672	173.8
Vendor Mortgage Loans	4	0.5	9	1.0	87	8.8	67	5.9
Implemented Guaranteed Loans	0	0.0	0	0.0	0	0.0	16	0.3
Subtotal	**2,469**	**$62.1**	**3,732**	**$87.5**	**165,483**	**$2,213.4**	**10,772**	**$181.4**
TOTAL FARM	**3,572**	**$163.2**	**4,374**	**$149.8**	**189,410**	**$4,373.3**	**20,146**	**$818.0**
Commercial								
Direct Loans	42	13.5	19	6.4	409	160.4	146	28.5
Specific Guaranteed Loans	0	0.0	3	0.5	503	203.1	2	0.2
Letters of Credit	0	0.0	0	0.0	6	3.5	0	0.0
Canada-Alberta Partnership on Agri-food	0	0.0	0	0.0	69	17.4	0	0.0
Local Opportunity Bonds	0	0.0	1	0.1	3	2.1	2	1.1
Implemented Guaranteed Loans	0	0.0	0	0.0	0	0.0	2	2.2
Farm Credit Corporation Loans	13	12.9	11	14.6	37	53.6	33	35.8
Other	17	27.5	2	25.1	26	67.5	7	24.5
Total Commercial	**72**	**$53.9**	**36**	**$46.7**	**1,053**	**$507.6**	**192**	**$92.3**
CORPORATE GRAND TOTAL	**3,644**	**$217.1**	**4,410**	**$196.5**	**190,463**	**$4,880.9**	**20,338**	**$910.3**

Summary for Farm Income Disaster Program

Claims paid as of June 30, 1999	Claim Year - 1997		Claim Year - 1996		Claim Year - 1995	
Region	Number of Claims	Amount Paid $M.	Number of Claims	Amount Paid $M.	Number of Claims	Amount Paid $M.
Lethbridge	356	8.3	425	9.3	447	8.7
Red Deer	498	8.3	783	12.4	992	12.4
Camrose	1,235	17.0	1,616	22.7	3,180	38.8
Fairview	1,054	22.1	797	13.1	332	4.0
Claims paid	**3,143**	**$55.7**	**3,621**	**$57.5**	**4,951**	**$63.9**

Farm Income Disaster Program claims paid for the 1997 tax year. Out of 3,981 claims submitted for $71.2 million, 3,143 claims for $55.7 million were paid as of June 30, 1999. There were 827 declined or ineligible claims, and the remaining 11 claims are still awaiting additional information.

FIDP Funding ($ Millions)	1998/99	1997/98	1996/97	1995/96
Funds accrued at beginning	102.8	109.7	91.0	0.0
Expense for year	56.1	50.1	80.5	91.0
Claims paid - 1995 tax year	0.3	1.8	61.8	0.0
- 1996 tax year	3.1	54.4	0.0	0.0
- 1997 tax year	54.5	0.8	0.0	0.0
- 1998 tax year	6.9	0.0	0.0	0.0
Funds accrued at end of year	**$94.1**	**$102.8**	**$109.7**	**$91.0**

Summary of Activities

Summary for All-Risk Crop Insurance by Crop Year

Crop Year	Number of Contracts	Acres '000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1994	19,928	9,067	622,081	83,645	5,927	23,433	28.0
1995	16,162	8,315	676,822	86,623	4,793	31,602	36.5
1996	14,303	7,311	785,076	87,937	4,143	34,044	38.7
1997	15,464	8,493	899,170	99,972	5,889	52,387	52.4
1998	15,470	9,469	$971,964	$105,489	5,364	$61,697	58.5

Summary for Hail Endorsement by Crop Year

Crop Year	Number of Contracts	Acres '000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1994	0	0	0	0	0	0	0.0
1995	10,038	5,120	441,200	24,484	2,413	20,331	83.0
1996	9,738	5,068	565,762	29,991	1,847	19,268	64.2
1997	11,154	6,226	691,816	39,154	1,884	17,212	44.0
1998	11,669	7,012	$754,071	$40,815	2,010	$25,297	62.0

Summary for Straight Hail Insurance by Crop Year

Crop Year	Number of Contracts	Acres '000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1994	10,493	4,803	443,126	22,402	2,302	21,449	95.7
1995	9,882	4,845	441,270	21,801	2,078	18,841	86.4
1996	12,518	6,346	662,272	31,802	1,819	19,157	60.2
1997	9,735	4,836	474,113	24,092	1,369	10,239	42.5
1998	9,177	4,824	$454,518	$22,401	1,174	$11,696	52.2

Summary for Forage Insurance by Crop Year

Crop Year	Number of Contracts	Acres '000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1994	2,837	1,431	22,376	5,366	794	1,229	22.9
1995	1,964	1,080	14,865	3,464	1,246	5,976	172.5
1996	1,952	1,135	17,960	4,413	541	1,530	34.7
1997	1,641	1,010	15,213	3,618	432	2,084	57.6
1998	2,447	2,740	$45,454	$9,355	1,780	$14,530	155.3

Waterfowl/Wildlife Compensation Program by Crop Year

Crop Year	Wildlife Number of Losses	Wildlife Losses $,000	Waterfowl Number of Losses	Waterfowl Losses $,000	Total Number of Losses	Total Losses $,000
1994	54	99	217	439	271	537
1995	267	550	280	687	547	1,237
1996	1,499	4,397	1,367	6,645	2,866	11,042
1997	418	2,108	706	3,106	1,124	5,214
1998	142	$407	103	$252	245	$658

Financial Statements

"Fiscal responsibility is a promise we aim to keep, every single day. In some cases, as with this year's hail insurance rebate, financial efficiency allows AFSC to return surplus funds to policyholders. In all cases, we believe sound cost control ultimately makes our products more appealing to our customers. At AFSC, we take pride in delivering programs that farmers - and all Albertans - can feel good about."

Dave Schurman
Vice-President, Finance and Administration

Management's Responsibility for Financial Reporting

The preparation of these financial statements, management's discussion and analysis, and all other financial information relating to the Corporation contained in this annual report is the responsibility of management. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles, using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

Management depends upon internal accounting control systems to meet its responsibility for reliable and accurate reporting. These control systems are subject to periodic review by the Corporation's internal auditors.

The Alberta Auditor General, the Corporation's independent auditor, is responsible to express a professional opinion on the financial statements.

The Board of Directors Audit Committee, comprised of non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, the internal auditors and the independent auditors to discuss auditing and financial matters, gain assurance that management is carrying out its responsibilities and to review and approve the financial statements. The auditors have full and free access to the Audit Committee.

Brian Manning

Brian Manning
President
and Managing Director

Dave Schurman, C.A.
Vice-President,
Finance and Administration

Auditor's Report

AUDITOR GENERAL
Alberta

Alberta Legislature
Office of the Auditor General

To the Board of Directors of the Agriculture Financial Services Corporation

I have audited the balance sheet of the Agriculture Financial Services Corporation as at March 31, 1999, and the statements of revenue, expense and surplus, and changes in cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1999 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine

Peter Valentine
FCA
Auditor General
Edmonton, Alberta
May 14, 1999

Balance Sheet

As at March 31, 1999

(in thousands)

	1999	1998 (Restated)
Assets		
Cash	$ 37,405	$ 54,101
Accounts receivable (Note 7)	3,282	4,926
Due from Province of Alberta	16,482	72,261
Due from Government of Canada	61,302	6,119
Loans receivable (Note 8)	671,119	666,328
Investments (Note 9)	347,054	277,125
Property held for sale (Note 10)	127	376
Capital assets (Note 11)	13,212	6,618
	$ 1,149,983	$ 1,087,854
Liabilities and Surplus		
Accounts payable and accrued liabilities (Note 12)	$ 18,991	$ 23,501
Estimated indemnities payable (Note 13)	95,018	105,875
Due to Crop Reinsurance Fund of Alberta (Note 14)	53,564	53,586
Allowance for losses on loan guarantees (Note 20)	3,140	7,126
Debentures and notes payable (Note 15)	655,585	642,683
Deferred revenue (Note 16)	14,013	7,670
	840,311	840,441
Surplus	309,672	247,413
	$ 1,149,983	$ 1,087,854

Approved by the Board:

Bernie Kotelko
Director

Brian F. Manning
President and Managing Director

The accompanying notes and schedules are part of these financial statements.

Statement of Revenue, Expense and Surplus

For the year ended March 31, 1999

(in thousands)

	1999 Actual (Schedule 1)	1999 Budget (Note 3(a))	1998 Actual (Restated)
Revenue			
Premiums from insured persons, net (Note 17)	$ 70,829	$ 82,335	$ 62,683
Interest (Note 18)	49,869	48,465	62,010
Contribution from Province of Alberta, net (Note 17)	70,710	145,042	129,440
Contribution from Government of Canada, net (Note 17)	108,259	30,355	50,819
Investment income	18,408	11,930	15,929
Fees and other income (Note 3(c)(ii))	3,969	2,803	3,582
Amortization of loan discounts	2,141	2,655	3,929
	324,185	323,585	328,392
Expense			
Indemnities (Note 17)	171,292	222,637	134,158
Interest	51,443	60,075	61,080
Administration, Schedule 2 (Note 3(c)(ii))	34,026	33,630	32,550
Farm loan incentives	3,858	4,100	7,453
Selling commissions	1,704	2,160	1,805
Provision for doubtful accounts and for losses (Note 19)	(395)	2,120	(4,687)
	261,928	324,722	232,359
Excess (deficiency) of revenue over expenses before recoveries	62,257	(1,137)	96,033
Net recoveries, Schedule 1	2	–	(105)
Surplus (deficit) for the year	62,259	$ (1,137)	95,928
Surplus at beginning of year	247,413		151,485
Surplus at end of year	$ 309,672		$ 247,413

Statement of
Cash Flows

For the year ended March 31, 1999

(in thousands)

	1999	1998 (Restated)
Operating activities		
Surplus for the year	$ 62,259	$ 95,929
Changes not affecting cash	(8,640)	(12,230)
Changes in assets and liabilities relating to operations	(12,624)	1,393
Net cash provided by operating activities	40,995	85,092
Investing activities		
Proceeds from repayments of loans receivable and sale of properties	101,676	174,636
Loan disbursements	(108,173)	(68,460)
Change in investments	(63,432)	(94,826)
Purchase of capital assets	(7,700)	(3,371)
Proceeds on disposal of capital assets	29	75
Net cash (utilized) provided by investing activities	(77,600)	8,054
Financing activities		
Borrowing from the Province of Alberta	494,081	34,598
Repayment of borrowing from the Province of Alberta	(481,570)	(159,729)
Government of Canada funding for capital assets	2,972	1,192
Province of Alberta funding for capital assets	4,426	2,105
Net cash provided (utilized) by financing activities	19,909	(121,834)
Net decrease in cash from operating, investing and financing activities	(16,696)	(28,688)
Cash at beginning of year	54,101	82,789
Cash at end of year	$ 37,405	$ 54,101

Notes to the Financial Statements

March 31, 1999

Note 1 Authority and Purpose

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the Agriculture Financial Services Act, Chapter A-12.5, 1993.

The Corporation provides lending and insurance services and compensation programs. Its core programs and services include loans to beginning farmers, commercial lending, crop insurance, hail insurance and farm income disaster. It also delivers other programs and services including loans to developing farmers, loan guarantees, and business planning/counseling. The Corporation acts as Alberta agent for commercial lending for the federal Farm Credit Corporation.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Revenue Recognition

Interest revenue on loans receivable is recognized as earned unless the ultimate collectibility of the loan is in doubt. When a loan is classified as doubtful, interest revenue is no longer recognized.

Premiums, including federal and provincial government contributions, are recognized as income when invoiced to producers.

Federal and provincial contributions for capital asset acquisitions are deferred and recognized based on the same schedule as the capital assets are amortized.

Loan application fees are recognized when the applications are received and loan fees are recognized at the time of loan disbursement. Farm Income Disaster Program application and administration fees are accrued based on the number of applications and the amount of estimated indemnities. Other fees are recorded when the Corporation completes the applicable service.

(b) Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. Interest is earned on the daily cash balance at the average rate of CCITF earnings, which varies depending on prevailing market interest rates.

(c) Fair Value of Financial Instruments

Because of the relatively short period to maturity, short-term financial instruments are valued at cost, adjusted for allowance for doubtful accounts, if applicable; which is considered to be equivalent to fair value. This approach applies to cash, accounts receivable, Due from Province of Alberta, Due from Government of Canada, accounts payable and accrued liabilities, estimated indemnities payable, Due to Crop Reinsurance Fund of Canada for Alberta and Due to Crop Reinsurance Fund of Alberta. Loans receivable and Allowance for losses on loan guarantees do not have fair values disclosed due to the difficulty in determining the amount. Fair values of investments, debentures and notes payable are disclosed in their respective notes.

(d) Investments

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments, when the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the straight-line method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(e) Capital Assets and Amortization

Capital assets are recorded at cost. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Building	25 years
Computer equipment	5 years
Software development costs	10 years
Equipment and furniture	10 years
Vehicles	5 years

(f) Property Held for Sale

Property held for sale is recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Corporation obtains title to the property plus subsequent disbursements related to the property less any revenues or lease payments received.

(g) Provision for Losses on Loans and Guarantees

Provisions are established for specifically identified potential losses on loans and guarantees as well as for anticipated but not specifically identified losses. Since the amounts and timing of future cash flows cannot be estimated with reasonable reliability, specific provisions are established by discounting the estimated fair value of security. The change in the present value attributed to the passage of time on the expected future cash flow is adjusted against the provision for doubtful accounts.

An impaired loan is a loan in which there is risk of loss to the Corporation for full and timely collection of the debt. Impairment may be due to a security deficiency, inadequate cash flow, economic factors in a specific segment of the industry or a catastrophic event.

The majority of the Corporation's loan portfolio is with beginning and developing agricultural operations and hence, is subject to higher risk than portfolios of other lenders. The Corporation recognizes this by providing significant general allowances for doubtful accounts. In establishing the general component of the allowance, management estimates loss percentages and applies them to loans receivable balances categorized into risk pools. Risk pools are established based on land value trends, the impact of federal and provincial government programs, international trade criteria, future commodity price trends, climatic conditions and the financial stability of the borrower.

(h) Loan Discounting

Loans made under the Canada-Alberta Partnership on Agri-food program, and amounts previously deferred under the Indexed Deferral Plan have been discounted because they involve significant concessionary elements. The amounts discounted are being amortized to revenue over the lives of the concessionary terms.

(i) Pension

Liability

Accounts payable and accrued liabilities include the portion of unfunded pension liability for the Public Service Pension Plan and the Management Employees Pension Plan incurred on behalf of some of the Corporation's employees.

Expense

Pension costs comprise: the cost of pension benefits earned by employees during the year; interest on the Corporation's share of the unfunded pension liability; the amortization of deferred adjustments over the expected average remaining service life of employees which relate to the long term; adjustments to the pension obligation recognized immediately if there is reasonable assurance that a gain or loss has been realized; and the effect of the change in the ratio used to allocate the plan's total unfunded liability to participating entities. The net expense or recovery is included as part of salaries and benefits expenses.

(j) Reinsurance Ceded

Premiums, Contributions from the Province of Alberta, Contributions from Government of Canada and Indemnities are recorded net of amounts ceded to and recoverable from reinsurers.

(k) Transactions with Related Parties

All related party transactions have been recorded at the amount of consideration paid or received as agreed to by the related party, except for donated services (see Note 3(c)(ii)).

Note 3 Financial Structure

(a) The budget is derived from information contained in the Ministry of Agriculture, Food and Rural Development's Business Plan which is included as supplementary information in the 1998-99 Government Estimates. The budget was approved by the Board of Directors on August 27, 1998 and reflects contributions from the Province of Alberta of $156,712,717 which is included in the Ministry's Business Plan which was authorized through the Legislative Assembly. The contribution from the Province of Alberta was adjusted by $11,670,862 for ceded reinsurance. The contribution from the Province of Alberta has not been adjusted for the transfer of the 1998-99 supplementary estimate for achievement bonus.

The budget and actual columns disclose results on an inconsistent basis. The budget column is based on funding requirements and therefore does not include accruals for amortization of capital assets and deferred revenue which are included in the actual results.

(b) *Insurance, Safety Net and Compensation Programs*

Programs administered by the Corporation are funded as follows:

	Premiums	Indemnities	Administration Costs
Crop Insurance Coverage up to 50%(1) of risk	Producers 20% Alberta 40% Canada 40%	Crop Insurance Fund and Reinsurance Funds	50% Alberta 50% Canada
Coverage greater than 50% and Hail Endorsement	Producers 50% Alberta 30% Canada 20%		
Farm Income Disaster	N/A	Alberta(2) 40% Canada(2) 60%	Producer fees cover about 20% Alberta covers balance
Hail Insurance	100% Producers	Hail Insurance Fund	100% Producers
Wildlife Compensation			
Waterfowl	N/A	50% Alberta 50% Canada	50% Alberta 50% Canada
Other	N/A	100% Alberta	100% Alberta

(1) Coverage does not include hail endorsement.

(2) By memorandum of understanding, the Government of Canada and the provincial governments have agreed to fund an agricultural disaster program called the Agricultural Income Disaster Assistance Program (AIDA). It has been further agreed that Alberta's Farm Income Disaster Program (FIDP) will be used to deliver the majority of this assistance in Alberta. The Government of Canada has a national cap of $870 million for the two years for which AIDA has been approved. Program costs will be shared 60% by the Government of Canada and 40% by the provinces.

The Crop Insurance and Wildlife Compensation programs are administered in accordance with an agreement between the Province of Alberta and the Government of Canada. The agreement determines the percentage of premiums used to fund reinsurance and how indemnities are paid from each of the crop insurance and crop reinsurance funds. During the year ended March 31, 1999, 0% (7.5% 1998) of premiums were transferred to the Crop Reinsurance Fund of Alberta and 0% (15% 1998) of the premiums were transferred to the Crop Reinsurance Fund of Canada for Alberta.

During the year, $4 million was contributed by the provincial government for a one time reduction in the forage deficit.

(c) *Lending Programs*

(i) The Corporation's loans are funded by short- and long-term borrowing from the General Revenue Fund through the Canadian Note Program On-Lending Agreement. This agreement provides for the Corporation to obtain financing from the Province on the same terms at which the Province borrows that money. Prior to April 1, 1995, loans were funded through debentures issued to the Alberta Heritage Savings Trust Fund. The Corporation's lending operations are funded by contributions from the General Revenue Fund of the Province of Alberta through the Department of Agriculture, Food and Rural Development. The Canada-Alberta Partnership on Agri-food is funded by the Province of Alberta and the Government of Canada.

(ii) Certain office accommodation and support costs, amounting to $713,000 provided by the Departments of Agriculture, Food and Rural Development and Public Works, Supply and Services are included in the expenses of the Corporation. Since the Corporation is not charged for these costs, donated revenue of $713,000 has been included in fees and other revenue to reflect the value of these services. Some telecommunication services provided by the Department of Public Works, Supply and Services are not included in the expenses because there is not sufficient information available to quantify the costs. These costs are not considered significant relative to the overall administrative costs of the Corporation.

Note 4 Loan Programs and Repayment Options

(a) *Beginning Farmer Program*

This program provides loans to eligible beginning farmers. Loans made under this program entitle borrowers, as long as certain conditions are met, to an incentive equal to 1-1/2% (3% prior to April 1, 1998) of outstanding principal over each of the first five years of the loan. Beginning farmer loans are made for terms of up to 20 years with interest at 7-1/2% (9% prior to April 1, 1998) and are secured by land and other farm assets.

(b) *Developing Farmer Program*

The program provides loans to eligible farmers who are unable to obtain commercial or other financing at reasonable terms elsewhere. Loan interest rates are fixed for terms of up to 20 years. Interest rates are based on Farm Credit Corporation loan rates.

(c) Alberta Farm Development Loans

Alberta Farm Development Loans are issued by financial institutions to provide short- and medium-term financing for producers of agricultural products in Alberta. These loans can be for a maximum of $100,000 per individual partnership or company. The repayment terms are for periods of 20 years or less and interest rates equal to one of the following:

- lender's prime rate plus 1% for loans up to 10 years with variable rates; or
- lender's prime rate plus 1-1/2% for loans over 10 years, and for fixed rate loans.

Since 1973, the Corporation has negotiated three-year agreements with financial institutions, to guarantee up to 90% of individual loans and up to 10% of the total loans issued by the institution in any three-year period (see Note 20).

(d) Loan Guarantees

The Corporation guarantees certain farm and agri-business loans made by other financial institutions and vendors in Alberta. The Province of Alberta indemnifies the Corporation for any losses that might be incurred on loan guarantees (see Note 20).

(e) Disaster Assistance Programs

In addition to programs offered under the Agriculture Financial Services Act, the Corporation also administers three disaster assistance programs. The programs were used to provide disaster loans, from 1990 to 1993, with non-interest bearing terms for two- or five-year periods.

During 1998, a sub program was established to assist producers who had experienced several consecutive years of adverse conditions. Loans are made with a 7% interest rate for up to 10 years and interest can be deferred for up to the first two years.

(f) Canada-Alberta Partnership on Agri-food

This program provided financing to help stimulate private sector investment in the agriculture and food processing industry in Alberta. The program provided loans for eligible projects, which were non-interest bearing for a maximum of five years.

(g) Indexed Deferral Plan

Prior to March 31, 1993, the Indexed Deferral Plan allowed for the deferral of certain payments due on loans where that year's commodity price index was less than a 10-year average for the index. The terms of the deferral require that in years where the current commodity index is greater than the 10-year average index, a portion of the deferred balance will be payable. Interest is not charged on amounts deferred under this Plan.

Note 5 Change in Accounting Policy

Deferred Revenue

The Corporation has changed its policy for recording government funding of capital assets. Under the new policy, grants received based on acquisition cost are recorded as deferred revenue. The recognition of the grant as revenue is based on the same schedule as the capital assets are amortized. The net book value of the capital asset at disposal is set up as a payable to the Province of Alberta and/or the Government of Canada based on the original funding. Previously, grants were recognized as revenue based on acquisition cost at the time of acquisition of the asset. This change increased the surplus for the current fiscal year by $6,478,000. This change has been applied retroactively and the 1998 figures have been restated as follows:

	As Previously Reported	Change	Restated
		(in thousands)	
Deferred Revenue - Government of Canada	$ –	$ 1,420	$ 1,420
Deferred Revenue - Province of Alberta	–	2,733	2,733
Contribution from Province of Alberta	140,285	(10,845)	129,440
Contribution from Government of Canada	61,139	(10,320)	50,819
Surplus for the year	98,331	(2,403)	95,928
Surplus at end of year	252,566	(5,153)[1]	247,413

(1) The change in the Surplus at end of year is comprised of $4,316,826 reduction due to the change in policy for Deferred Revenue and $835,517 reduction due to the reinsurance adjustment.

Note 6 Reinsurance Adjustment

An adjustment was made retroactively to correct the overstatement of the amount of a previous recovery on both reinsurance funds. In addition, a transfer was required between the reinsurance funds to properly reflect the recovery for each fund. This correction has been applied retroactively and the 1998 figures have been restated as follows:

	As Previously Reported	Change	Restated
		(in thousands)	
Due to Crop Reinsurance Fund of Canada for Alberta	$ (722)	$ 1,496	$ 774
Due to Crop Reinsurance Fund of Alberta	54,246	(660)	53,586
Surplus at end of year	252,566	(5,153)[1]	247,413

(1) The change in the Surplus at end of year is comprised of $4,316,826 reduction due to the change in policy for Deferred Revenue and $835,517 reduction due to the reinsurance adjustment.

Note 7 Accounts Receivable

	1999	1998
		(Restated)
	(in thousands)	(in thousands)
Premiums from insured persons:		
Crop Insurance program	$ 1,318	$ 1,828
Hail Insurance program	431	715
Farm Income Disaster Program Fees	1,175	1,343
Other	711	1,192
	3,635	5,078
Less allowances for doubtful accounts (Note 19)	(353)	(152)
	$ 3,282	$ 4,926

Note 8 Loans Receivable

Assuming that options to renew will be exercised, loans are repayable in installments due as follows:

	1999	1998
	(in thousands)	(in thousands)
Arrears of principal and interest	$ 14,769	$ 10,862
Principal due in : Year 1	49,946	51,360
2	50,722	50,148
3	50,609	50,949
4	49,814	49,356
5	50,855	48,167
Year(s) 6-10	217,689	215,880
Year(s) over 10	185,411	180,680
Amounts deferred under the Indexed Deferral Plan	7,539	11,631
	677,354	669,033
Add accrued interest	22,455	26,886
	699,809	695,919
Less allowance for doubtful accounts (Note 19)	(23,420)	(20,487)
Less accrued incentives	(2,212)	(3,905)
Less loan discounts	(3,058)	(5,199)
	$ 671,119	$ 666,328

Included in the above are non-interest bearing loans which, before discounting, have principal amounts outstanding of:

	1999	1998
	(in thousands)	(in thousands)
Indexed Deferral Plan	$ 7,539	$ 11,631
Canada-Alberta Partnership on Agri-food	5,548	10,601
	$ 13,087	$ 22,232

The allowance for doubtful accounts of $23,420,407 (1998 $20,487,356) includes a specific allowance for $2,914,407 (1998 $3,430,356) on impaired loans outstanding of $15,587,807 (1998 $16,909,420), excluding unamortized loan discount.

	Term to Maturity(1)				Not(2) Interest	1999	1998
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Rate Sensitive	Total	Total
	(in thousands)						
Direct farm loans	$ 10,569	$ 36,422	$ 143,921	$ 427,821	$ 25,392	$ 644,125	$ 640,398
Yield(3)	7.75%	7.79%	7.60%	7.51%		7.55%	7.56%
Agribusiness loans	5,759	13,193	6,702	648	692	26,994	25,930
Yield(3)	3.14%	6.96%	8.94%	9.73%		6.70%	5.15%
Total	$ 16,328	$ 49,615	$ 150,623	$ 428,469	$ 26,084	$ 671,119	$ 666,328
Yield(3)	6.12%	7.57%	7.66%	7.52%			

(1) Term to maturity reflects the period of time until a loan matures or where an interest rate is to be renegotiated.

(2) Includes indexed deferral loans, net impaired loans, general provisions, accrued beginning farmer incentives, accrued interest and unamortized loan discount.

(3) Yield represents the rate which discounts future cash receipts to the carrying amount.

Fair value was not established for the loan portfolio because there is no established market for the developmental loans made by the Corporation. It would be difficult to set a discount rate to determine fair value due to the variation of risk within the portfolio.

Note 9 Investments

	Term to Maturity(1)				1999	1998
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Total
	(in thousands)					
Bonds and debentures:						
Government of Canada, direct and guaranteed	$ 92,128	$ 44,422	$ 11,296	$ 11,063	$ 158,909	$ 69,920
Province of Alberta	5,196	–	–	–	5,196	8,447
Other provincial direct and guaranteed	15,549	74,080	5,975	6,742	102,346	60,619
	112,873	118,502	17,271	17,805	266,451	138,986
Yield(2)	4.89%	5.14%	5.34%	5.70%	5.08%	5.14%
Fair value(3)	112,888	118,636	17,447	18,312	267,283	139,620
Securities:						
Corporate	77,555	–	–	–	77,555	135,946
Yield(2)	4.88%	–	–	–	4.88%	4.98%
Fair value(3)	77,579	–	–	–	77,579	135,888
	190,428	118,502	17,271	17,805	344,006	274,932
Accrued interest	359	2,011	293	385	3,048	2,193
	$ 190,787	$ 120,513	$ 17,564	$ 18,190	$ 347,054	$ 277,125
Fair value(3)					$ 344,862	$ 275,508

(1) Term to maturity classifications are based on contractual maturity of the security.

(2) Yield represents the rate which discounts future cash receipts to the carrying amount.

(3) Fair value is based on quoted market prices. Fair value does not include accrued interest.

Note 10 Property Held for Sale

Property held for sale, consisting mainly of land, has been acquired as a result of foreclosures, quit claims and other actions.

	1999 (in thousands)	1998 (in thousands)
Cost of property	$ 714	$ 1,116
Less allowance for losses on realization (Note 19)	(587)	(740)
Estimated net realizable value	$ 127	$ 376

The allowance for losses on realization of $586,832 (1998 $740,385) includes a specific allowance of $586,832 (1998 $440,385) on property balances outstanding of $621,022 (1998 $944,791).

Note 11 Capital Assets

	1999			1998
	Cost	Accumulated Amortization (in thousands)	Net Book Value	Net Book Value
Land	$ 115	$ –	$ 115	$ 115
Building	2,919	(704)	2,215	2,331
Computer equipment	5,670	(4,192)	1,478	1,645
Software development costs	7,964	–	7,964	1,549
Equipment and furniture	1,882	(968)	914	679
Vehicles	1,076	(550)	526	299
	$ 19,626	$ (6,414)	$ 13,212	$ 6,618

Note 12 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities includes an unfunded pension liability. The Corporation participates with other employers in two defined benefit pension plans. These plans provide pensions for some of the Corporation's employees based on length of service and earnings.

The Corporation had an unfunded pension liability for each plan as at March 31 which was estimated as follows:

	1999 (in thousands)	1998 (in thousands)
Management Employees Pension Plan	$ 413	$ 641
Public Service Pension Plan	381	394
	$ 794	$ 1,035

The total unfunded pension liability for each plan as at March 31, 1999 was determined by actuarial valuations, as at December 31, 1997 for the Pension Plan and as at December 31, 1997 for the Management Employees Pension Plan, both extrapolated to March 31, 1999.

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on each Pension Board's best estimate of future events. Each Plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses which relate to the long term are amortized over the expected average remaining service life of the employee group. Gains and losses for which there is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan which will be funded by employers. The Corporation's portion of the liability was based on the Corporation's percentage of the total pensionable payroll of all employers in each Plan.

Note 13 Estimated Indemnities Payable

	1999	1998
	(in thousands)	(in thousands)
Farm Income Disaster Program	$ 94,068	$ 102,830
Crop insurance	800	324
Wildlife compensation	150	2,721
	$ 95,018	$ 105,875

Estimated indemnities payable consist of known liabilities payable at the year end and estimated additional liabilities for indemnities based on historical information about the relationships between the number of claim applications received and the average amount of each application.

The Corporation implemented the Farm Income Disaster Program for the 1995 crop year. The Program may pay a farm business when it experiences a disastrous drop in margins on farm operations. If the program margin falls below 70% of the average margin for the previous three years, an indemnity may be payable. Applications can be submitted for the 1998 tax year until July 31, 1999 and indemnities are paid as applications are received and approved.

The Corporation has recorded a liability of $100 million as at March 31, 1999 to provide for estimated indemnities payable under the Program for the 1998 crop year. A portion of these indemnities was paid by March 31, 1999 which is reflected in the estimated indemnities payable. Indemnities to be paid may be more or less than the estimated liability of $100 million because the majority of applications are not received until after March 31, 1999. It is also difficult to predict the estimated indemnities payable because of the impact disasters will have on gross margins. The estimated indemnities payable may be as low as $73 million or as high as $116 million. Indemnities payable under the Program are limited to a maximum of $200 million in any fiscal year.

Note 14 Crop Reinsurance Funds

Each year, based on a formula in the Canada/Alberta Crop Insurance Agreement, an agreed portion of crop insurance premiums was set aside in each of the Crop Reinsurance Fund of Alberta and the Crop Reinsurance Fund of Canada for Alberta. In years when indemnities exceed funds available from the Crop Insurance Fund, after recoveries from reinsurers is exhausted (see Note 17), these reinsurance funds are used to pay unsatisfied indemnities. In the event one or both of these reinsurance funds is in a deficit position, the deficit will be funded through future years' premiums. The Crop Reinsurance Fund of Alberta is invested by the Corporation on behalf of the Province of Alberta and, accordingly, is shown as a liability of the Corporation to the Province. This liability of $53,564,000 (1998 $53,586,000) is equal to the closing surplus in the fund. The Crop Reinsurance Fund of Canada for Alberta is held by Canada.

	Crop Reinsurance Fund of Canada for Alberta		Crop Reinsurance Fund of Alberta	
	1999	1998	1999	1998
		(Restated)		(Restated)
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
Opening surplus	$ 77,272	$ 59,122	$ 53,586	$ 44,512
Current year contributions	34	18,150	(22)	9,074
Closing surplus	$ 77,306	$ 77,272	$ 53,564	$ 53,586

Note 15 Debentures and Notes Payable

Debentures payable and notes payable to the Province of Alberta are comprised of the following:

	Year of Maturity	Weighted Average Interest Rate - 1999	Principal Outstanding 1999 (in thousands)	Principal Outstanding 1998 (Restated) (in thousands)
Short term note	1998 - 1999	4.89%	$ 125,351	$ 34,599
Debenture A	2004	9.94%	49,100	57,100
Debenture B	2004 - 2005	9.13%	14,000	16,000
Debenture C	2005	8.53%	32,000	36,000
Debenture D	2006	8.23%	55,000	61,500
Debenture E	2006 - 2007	7.41%	59,400	66,000
Debenture F	2007 - 2009	–	–	91,450
Debenture G	2009 - 2010	9.56%	57,230	61,110
Debenture H	2010 - 2011	8.50%	68,670	73,030
Debenture J	2009	–	–	35,480
Debenture K	2011	8.16%	31,777	33,293
Debenture L	2001- 2002	7.39%	34,035	45,936
Note payable 001	2011	7.56%	22,405	23,450
Note payable 002	2010	5.58%	50,031	–
Note payable 003	2013	5.39%	47,883	–
			646,882	634,948
Accrued interest			8,703	7,735
			$ 655,585	$ 642,683

Principal repayments due in each of the next five years are as follows:

	(in thousands)
Year ending March 31, 2000	$ 56,666
2001	$ 60,203
2002	$ 64,425
2003	$ 66,508
2004	$ 60,359

	Term to Maturity[1] Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	1999 Total	1998 Total (Restated)
	(in thousands)					
Debentures & notes payable Province of Alberta	$ 196,581	$ 41,400	$ 154,100	$ 254,801	$ 646,882	$ 634,947
Yield[2]	6.93%	9.87%	8.02%	6.22%	7.10%	8.38%
Accrued Interest					8,703	7,735
					$ 655,585	$ 642,682
Approximate fair value[3] at March 31					$ 672,335	$ 680,252

(1) Term to maturity reflects the period of time until an interest rate renegotiation date or the maturity date of the long-term debt. The interest rates are fixed for either a five year period or until maturity. Repayment is either by semi-annual or annual installments of principal. The Provincial Treasurer may permit all or part of debentures to be redeemed by the issuer prior to maturity without penalty and the Corporation will redeem debentures when cash flow is adequate and the Provincial Treasurer authorizes redemption.

(2) Yield represents the rate which discounts the stream of future payments from the reporting date to the next interest rate renegotiation date.

(3) Fair values for debentures and notes are based on the net present value of future cash flows. Each individual cash flow payment is discounted at a rate which matches the term of the cash flow payment and is adjusted for a yield premium to reflect several factors. These include a liquidity premium to reflect the fact that if the debentures and notes are sold, there will be a limited pool of these securities trading in the market; and that the debentures and notes would be new to the market and are not direct issues of the Province; a premium for periodic interest reset feature where applicable, and a factor to reflect the blended payment structure of the debentures and notes.

Note 16 Deferred Revenue

Deferred revenue is comprised of Canada-Alberta Partnership on Agri-food contributions and grants received from the Government of Canada and the Province of Alberta for capital asset acquisitions. The unamortized portion of these contributions is shown as deferred revenue on the balance sheet and is comprised of the following:

	1999 (in thousands)	1998 (in thousands)
Province of Alberta capital asset grants	$ 6,459	$ 2,733
Government of Canada capital asset grants	4,129	1,420
Deferred Canada-Alberta on Agri-food contributions	3,425	3,517
	$ 14,013	$ 7,670

Note 17 Reinsurance

The Corporation reinsures a portion of insurance contracts which reduces the liability of the Corporation. The Corporation has obtained reinsurance for Crop Insurance in addition to what is covered by the cost sharing agreement between the Province of Alberta and Government of Canada (see Note 3(b)) and Hail Insurance. For Crop Insurance, two layers of reinsurance were obtained resulting in coverage of annual losses in excess of annual premiums. The first layer covers 95% of losses between 115% and 140% of gross premiums paid by insured persons, the Province of Alberta and the Government of Canada with a maximum dollar limit of $37 million. The second layer covers 90% of losses between 140% and 180% of gross premiums paid by insured persons, the Province of Alberta and the Government of Canada with a maximum dollar limit of $56 million. This was the first year this type of reinsurance was in place.

For Hail Insurance, a layer of reinsurance was obtained which covers 97.5% of losses between 110% and 125% of gross premiums paid by insured persons with a dollar limit of $4.5 million.

The figures shown on the Statement of Revenue, Expense and Surplus are net of the following amounts relating to reinsurance ceded to other reinsurers. The Contribution from Province of Alberta and Contribution from Government of Canada on the Statement of Revenue, Expense and Surplus include contributions for administration expenses. Amounts included in the following table pertain to contributions for premiums and related reinsurance premiums (amounts ceded).

	1999 Gross	1999 Ceded	1999 Net	1998 Net
	(in thousands)			
Crop Insurance				
Premiums from insured persons	$ 59,295	$ (3,800)	$ 55,495	$ 46,416
Contribution from Province of Alberta for premiums	53,166	(3,145)	50,021	50,467
Contribution from Government of Canada for premiums	43,055	(2,753)	40,302	41,277
Indemnities	103,258	–	103,258	70,413
Hail Insurance				
Premiums from insured persons	15,544	(210)	15,334	16,267
Indemnities	11,541	–	11,541	10,039

Note 18 Interest Revenue

The Corporation does not recognize interest revenue on loans receivable where collection of the interest is in doubt. The amount of net recovery of interest revenue for 1999 was $809,103 (1998 $1,729,726). In 1999, certain loans which had been considered as impaired in previous years were no longer considered impaired. Therefore, unrecognized interest from previous years on these loans was recognized in 1999, resulting in a net recovery of interest for the year.

Note 19 Allowances for Doubtful Accounts and for Losses

	Accounts Receivable	Loans Receivable	Property Held for Sale	Loan Guarantees	Total
	(Note 7)	(Note 8)	(Note 10)	(Note 20)	
		(in thousands)			
Allowances at March 31, 1997	$ 197	$ 25,305	$ 1,467	$ 6,805	$ 33,774
Transfers to property for sale in 1997-98	–	(155)	155	–	–
Provision for 1997-98	(53)	(4,142)	(813)	321	(4,687)
Write-offs in 1997-98	8	(521)	(69)	–	(582)
Allowances at March 31, 1998	152	20,487	740	7,126	28,505
Transfer to property for sale in 1998-99	–	(95)	95	–	–
Provision for 1998-99	250	3,515	(174)	(3,986)	(395)
Write-offs in 1998-99	(49)	(487)	(74)	-	(610)
Allowances at March 31, 1999	$ 353	$ 23,420	$ 587	$ 3,140	$ 27,500

Note 20 Contingencies and Commitments

	1999	1998
	(in thousands)	(in thousands)
Loan guarantees	$ 65,025	$ 76,033
Less allowance for losses (Note 19)	(3,140)	(7,126)
Total contingencies	$ 61,885	$ 68,907
Estimated farm loan incentives	$ 13,276	$ 11,867
Approved, undisbursed loans	23,028	17,173
Reinsurance	22,400	–
Total commitments	$ 58,704	$ 29,040

Contingencies under the Alberta Farm Development Loans program comprise $56,245,392 of the loan guarantees. Loans made by other financial institutions outstanding under this program at March 31, 1999 were $162,708,607 (1998 $191,713,380).

There are legal actions outstanding against the Corporation but it is expected that these actions will not result in significant costs to the Corporation.

Note 21 Credit Risk and Interest Risk

(a) Credit Risk

Credit risk is the risk that a debtor may not pay amounts owing thus resulting in a loss. To mitigate this risk, the Corporation has developed the following policies.

Lending staff manage the Corporation's significant credit risk exposure in the beginning and developing agricultural business loans by monitoring accounts very closely. This enables the Corporation to counsel owners of businesses to take quick action if problems start to occur and enables the Corporation to take prompt action to realize on its

security. Security requirements for individual loans reflect the degree of risk in each particular operation. Businesses needing specialized and customized equipment, or those involved with new and emerging segments of agriculture, are required to have significantly higher security margins than enterprises in more traditional parts of agriculture. Although these measures do not eliminate the risk, they do reduce the risk of significant losses if there is a province-wide economic downturn in the agri-industry.

The Corporation, through its reinsurance broker, monitors the concentration of credit risk with each reinsurer and evaluates the financial condition of each reinsurer. There is no significant reliance on any one reinsurer.

For insurance premiums receivable, a discount is provided for early payment of premiums. Payment arrangements are set for all customers not taking advantage of the offered discount. Outstanding premiums are closely monitored by insurance staff and collection action is taken promptly when required. Insurance contracts cannot be renewed if premiums for the prior year are outstanding at the renewal date.

(b) Interest Risk

Interest rate risk is the impact future changes of interest rates may have on cash flows and fair value of assets and liabilities. To mitigate this risk, a matching of repayment timing of loans made and borrowing is planned.

The Corporation has negotiated with Alberta Treasury to refinance long-term debt over the next three years. As outstanding Heritage Fund debentures reach five-year interest re-negotiation dates, these debentures will be paid out and replaced with long-term borrowing with fixed interest rates. Terms of this replacement borrowing – and any borrowing needed to fund new loans made by the Corporation – will be based on fixed interest rate financing, and terms will be designed to bring about appropriate matching of lending and borrowing amortization periods by 2002. This will minimize the interest rate risk on the existing portfolio.

Interest rates are fixed for the life of Beginning Farmer loans, the major portion of the Corporation's loan portfolio. The Corporation does not set these rates to reflect the cost of money in the market, so there is a risk that significant increases in market interest rates will increase the Province's cost of new lending, until the lending and borrowing portfolios are matched.

The Corporation's Investment Policy is set with terms that attempt to anticipate the expected future cash flows of the Crop and Hail funds. The expected future cash flows are based on historical information modified for current factors that may impact historical results.

Note 22 Related Party Transactions

Sufficient information is provided throughout the statements to disclose significant related party transactions the Corporation entered into, except for the following:

	1999 (in thousands)	1998 (in thousands)
Interest expense - Province of Alberta	$ 51,393	$ 61,069
Investment income - Province of Alberta	585	31
Accrued interest receivable - Province of Alberta	218	218

Note 23 Uncertainty Due to the Year 2000

The year 2000 issue is the result of some computer systems using two digits rather than four to define the applicable year. The Corporation's computer systems that have date sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations or system failures. In addition, similar problems may arise in some systems if certain dates in 1999 are not recognized as a valid date or are recognized to represent something other than a date. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000. If not addressed, the effect on operations and financial reporting may range from minor errors to significant systems failure that could affect the ability to conduct some Corporate operations. Despite the Corporation's efforts to address this issue, it is not possible to be certain that all aspects of the year 2000 issue affecting the government, including those related to the efforts of customers, suppliers and other third parties, will be fully resolved.

Note 24 Comparative Figures

The 1998 figures have been reclassified and restated where necessary to conform to 1999 presentation.

Schedule of Revenue, Expense and Surplus

For the year ended March 31, 1999

(in thousands)

	1999								1998 (Restated)
	Crop Insurance	Farm Income Disaster	Beginning Farmer Lending	Hail Insurance	Commercial Lending	Wildlife Compensation	Other	Total	Total
Revenue									
Premiums from insured persons, net (Note 17)	$ 55,495	$ –	$ –	$ 15,334	$ –	$ –	$ –	$ 70,829	$ 62,683
Interest (Note 18)	369	22	45,067	136	1,406	–	2,869	49,869	62,010
Contribution from Province of Alberta, net (Note 17)	57,826	(2,184)	11,744	–	3,472	289	(437)	70,710	129,440
Contribution from Government of Canada, net (Note 17)	48,107	60,000	–	–	93	25	34	108,259	50,819
Investment income	13,174	987	349	3,664	17	96	121	18,408	15,929
Fees and other income (Note 3 (c)(ii))	232	1,026	1,173	412	562	25	539	3,969	3,582
Amortization of loan discounts	–	–	1,377	–	540	–	224	2,141	3,929
	175,203	59,851	59,710	19,546	6,090	435	3,350	324,185	328,392
Expense									
Indemnities (Note 17)	103,258	56,127	–	11,541	–	302	64	171,292	134,158
Interest	–	–	45,345	–	2,195	–	3,903	51,443	61,080
Administration, Schedule 2 (Note 3(c)(ii))	15,842	3,729	8,036	1,629	2,773	133	1,884	34,026	32,550
Farm loan incentives	–	–	3,856	–	–	–	2	3,858	7,453
Selling commissions	–	–	–	1,704	–	–	–	1,704	1,805
Provision for doubtful accounts and for losses (Note 19)	173	–	814	43	108	–	(1,533)	(395)	(4,687)
	119,273	59,856	58,051	14,917	5,076	435	4,320	261,928	232,359
Excess of revenue over expense before recoveries	55,930	(5)	1,659	4,629	1,014	–	(970)	62,257	96,033
Recoverable from (by) Government of Canada	–	–	–	–	–	–	1	1	(44)
Recoverable from (by) Province of Alberta	–	–	–	–	–	–	1	1	(61)
	–	–	–	–	–	–	2	2	(105)
Surplus (deficit) for the year	55,930	(5)	1,659	4,629	1,014	–	(968)	62,259	95,928
Surplus (deficit) at beginning of year	196,268	5	(1,659)	52,845	(1,014)	–	968	247,413	151,485
Surplus at end of year	$ 252,198	$ –	$ –	$ 57,474	$ –	$ –	$ –	$ 309,672	$ 247,413

Schedule of Administration Expense

For the year ended March 31, 1999

(in thousands)

	1999	1998 (Restated)
Salaries and benefits	$ 16,842	$ 15,179
Contracted services	3,527	5,076
Travel and automobile	2,635	1,835
Adjusters' wages and benefits	2,458	1,698
Office accommodation costs	2,066	2,298
Amortization of capital assets	1,117	1,053
Data processing	1,000	981
Stationery and supplies	904	740
Telecommunications	859	1,138
Equipment, rental and maintenance	735	690
Advertising	395	336
Professional services	362	336
Collection commissions	327	380
Training, meetings, seminars, conferences	256	235
Directors' fees and expenses	232	158
Postage and freight	166	281
Insurance	74	67
Grain grading	50	49
Bank charges	21	20
	$ 34,026	$ 32,550

Schedule of Salaries and Benefits

For the year ended March 31, 1999

(in thousands)

	1999			1998
	Salary and Wages(1)	Benefits and Allowances(2)	Total(3)	Total(3)
				(Restated)
Chair	$ 41	$ –	$ 41	$ 21
Board members	129	3	132	69
President and Managing Director	111	19	130	135
Vice President, Field Operations	100	18	118	119
Vice President, Finance and Administration	100	15	115	118
Vice President, Research, Information and Program Development	100	14	114	125
Senior Manager, Research and Program Development	84	14	98	98

(1) Salary and wages include fees for Chair and Board members and regular base pay and overtime for employees.

(2) Benefits and allowances include employer's share of all employee benefits, including health care, flexible health, dental and vision care allowance, group life insurance, pensions, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation, professional memberships and vacation payouts. No amount is included in benefits and allowances for an automobile provided to the President and Managing Director.

(3) Salary and benefits total for 1998 includes an achievement bonus for the year. Figures for 1999 do not include an achievement bonus because the amount of the bonus for each employee has not been determined.

AFSC Corporate Headquarters

Agriculture
Financial Services
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LACOMBE:
5718 - 56 Avenue
Lacombe, Alberta
T4L 1B1
(403) 782-8200

CAMROSE:
4910 - 52 Street
Camrose, Alberta
T4V 4E8
(780) 679-1311

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